



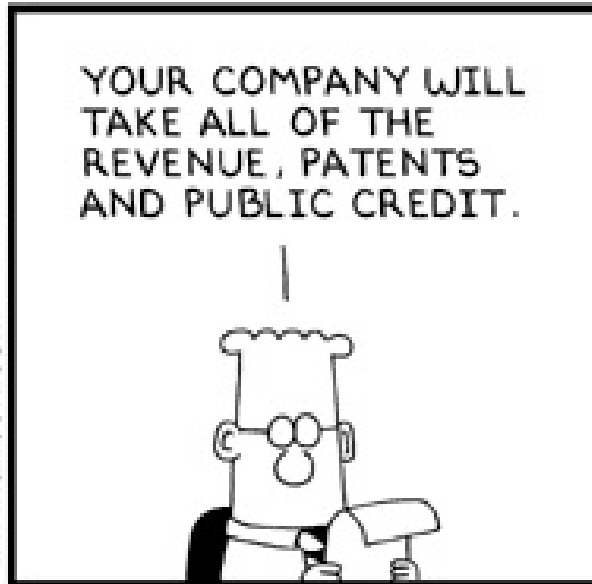
ROI – Return on Incentives

Sidebar Conference
Development Authority Board Member Training
Athens, Georgia
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Negotiating Local Incentives



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Types of Local Incentives



- Cash grants
- Free or Discounted Land
- Free building / Free or Reduced Rent
- Site Prep – other in kind services
- Low interest financing or buy downs
- Waiver of construction or permit fees, utility extension costs
- Free office space
- Employee relocation – moving expenses, travel costs, or lodging
- Tax “Abatements”

Using Local Incentives



- Match your incentives to meet critical project needs – up front versus deferred
- Determine what's needed to close the deal and determine if you can afford that BEFORE you make the offer
- Leverage other grants – make a good deal better!
- Performance standards or clawbacks – non threatening!

An Incentive Strategy

- Your public partners have approved the offer (ahead of time)
- Confidence/image with the prospect
- Different levels based on jobs and investment thresholds
- Fair for new or existing industry
- Keeps you out of trouble and passing the front page test

An Incentive Strategy

Tier	Minimum Jobs	Minimum Capital Investment	Targeted Tax Savings	Abatement Schedule
1	15	\$10,000,000	35%	5 years
2	50	\$30,000,000	50%	10 years
3	100	\$50,000,000	65%	10 plus

Special Tax Schedules

<u>Project Wood Chip - Tax Schedules</u>								
Equipment Investment - phase 1		\$30,000,000						
Depreciation		8 to 12 years						
2016 Millage - school + county		29.00 mills						
				County+School		Incentive	Proposed	
			Reported	Normal	Special	Tax	Tax	
<u>Yr</u>	<u>Bond Amount</u>	<u>Depreciation</u>	<u>Investment</u>	<u>100% Taxes</u>	<u>Schedule</u>	<u>Savings</u>	<u>Payments</u>	
1	\$30,000,000	92%	\$27,600,000	\$320,160	90%	\$288,144	\$32,016	
2	\$30,000,000	85%	\$25,500,000	\$295,800	80%	\$236,640	\$59,160	
3	\$30,000,000	78%	\$23,400,000	\$271,440	70%	\$190,008	\$81,432	
4	\$30,000,000	70%	\$21,000,000	\$243,600	60%	\$146,160	\$97,440	
5	\$30,000,000	63%	\$18,900,000	\$219,240	50%	\$109,620	\$109,620	
6	\$30,000,000	54%	\$16,200,000	\$187,920	40%	\$75,168	\$112,752	
7	\$30,000,000	44%	\$13,200,000	\$153,120	30%	\$45,936	\$107,184	
8	\$30,000,000	34%	\$10,200,000	\$118,320	20%	\$23,664	\$94,656	
9	\$30,000,000	28%	\$8,400,000	\$97,440	10%	\$9,744	\$87,696	
10	\$30,000,000	25%	\$7,500,000	\$87,000	0%	\$0	\$87,000	
				\$1,994,040		\$1,125,084	\$868,956	
			Company's Potential Savings			56%		

Fiscal Impact Analysis

- Analysis to determine if incentives are prudent or if “loss leader” makes sense
- Not the same as economic impact – fiscal impact from projects can be negative
- Measures new revenues less new costs to achieve net benefits or NPV
- New households and new students are major new cost components

Special Tax Schedules

Project Headquarters - Tax Schedules								
Equipment Investment - phase 1			\$30,000,000					
Real Property			100%					
2016 Millage - school + county			29.00 mills					
				County+School		Incentive	Proposed	
			Reported	Normal	Special	Tax	Tax	
Yr	Bond Amount	Depreciation	Investment	100% Taxes	Schedule	Savings	Payments	
1	\$30,000,000	100%	\$30,000,000	\$348,000	90%	\$313,200	\$34,800	
2	\$30,000,000	100%	\$30,000,000	\$348,000	80%	\$278,400	\$69,600	
3	\$30,000,000	100%	\$30,000,000	\$348,000	70%	\$243,600	\$104,400	
4	\$30,000,000	100%	\$30,000,000	\$348,000	60%	\$208,800	\$139,200	
5	\$30,000,000	100%	\$30,000,000	\$348,000	50%	\$174,000	\$174,000	
6	\$30,000,000	100%	\$30,000,000	\$348,000	40%	\$139,200	\$208,800	
7	\$30,000,000	100%	\$30,000,000	\$348,000	30%	\$104,400	\$243,600	
8	\$30,000,000	100%	\$30,000,000	\$348,000	20%	\$69,600	\$278,400	
9	\$30,000,000	100%	\$30,000,000	\$348,000	10%	\$34,800	\$313,200	
10	\$30,000,000	100%	\$30,000,000	\$348,000	0%	\$0	\$348,000	
				\$3,480,000		\$1,566,000	\$1,914,000	
			Company's Potential Savings			45%		

Project Sidebar

The Project

- International automotive
- 200 direct jobs
- \$15 million investment
- \$5.8 million payroll
- Economic impact exceeds \$10 million



Critical Needs

- Requires existing building
- Your building needs \$450,000 in rehab
- Lease purchase option
- Reducing risks and start up costs are critical
- 7 community finalists, multiple SE states
- OneGeorgia amount unknown before final offer is due

Project Sidebar – The Economic Impact

Study Area: Laurens & Contiguous Counties

Jobs: 200

Compensation: \$5.8 Million

NAICS Code: 336390: Other Motor Vehicle Parts Manufacturing

Model Source: IMPLAN 2016

Impact Type	Employment	Labor Income	Value Added	Output
Direct Effect	200	\$5,800,000	\$9,545,344	\$65,160,943
Indirect Effect	75.8	\$2,715,613	\$4,593,237	\$10,233,989
Induced Effect	36.28	\$907,879	\$2,001,453	\$3,822,074
Total Effect	312.07	\$9,423,492	\$16,140,034	\$79,217,006

Key Terms:

Direct Effects: Investments that contribute to a new activity in the economy, i.e.: new firm, construction costs and raw materials.

Indirect Effects: Inter-industry business transaction costs resulting from local industries buying goods and services from other local industries.

Induced Effects: Household consumption expenditures resulting from changes in personal income.

Labor Income: All forms of employment income, including Employee Compensation (wages/benefits) and Proprietor Income (payments received by the self-employed/unincorporated business owners).

Value Added: Gross Regional Product: Difference between an industry's or an establishment's total output (sales/receipts, operating income, inventory change) and the cost of its intermediate inputs (consumption of goods and services imported or purchased from other industries).

Output: Value of industry production as defined by industry, i.e.: Manufacturing Industry = Sales +/- Change in Inventory.

Project Sidebar – The Offer

Community Incentives Offer

- DA made the \$450,000 in building improvements
- 5 year lease purchase with graduated below market rents
- All rent payments reduce the purchase price
- Purchase price also reduced by actual number of jobs at year 5 x \$2,500 (For example: 200 jobs = \$500,000))
- 10 year aggressive tax abatements (100%)
- Loss leader



Georgia
Power